

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**MEMORANDUM OF COMMENTS AND  
RECOMMENDATIONS FOR MANAGEMENT  
IMPROVEMENTS IN ACCOUNTING PROCESSES  
AT THE WASHINGTON METROPOLITAN  
AREA TRANSIT COMMISSION**



**CHARLES C. MADDOX, ESQ.  
INSPECTOR GENERAL**

# GOVERNMENT OF THE DISTRICT OF COLUMBIA



OFFICE OF THE INSPECTOR GENERAL

717 14TH STREET, N.W., 5TH FL.  
WASHINGTON, D.C. 20005  
(202) 727-2540

September 21, 2001

William H. McGilvery, Executive Director  
Washington Metropolitan Area Transit Commission  
1828 L Street, N.W., Suite 703  
Washington, D.C. 20036

Dear Mr. McGilvery:

Enclosed are two copies of a report entitled "Memorandum of Comments and Recommendations for Management Improvements in Accounting Processes at the Washington Metropolitan Area Transit Commission" (Memorandum), conducted under project number OIG-No. 01-1-7-KC(2). The Memorandum was prepared as a result of the Office of the Inspector General's audit of the financial statements of the Washington Metropolitan Area Transit Commission (WMATC) for the period ended June 30, 2000. The audit report was issued June 29, 2001. Annual audits of WMATC's financial statements are made on a rotating basis by audit organizations of the District of the Columbia, the Commonwealth of Virginia, and the State of Maryland.

Although we found no material reportable internal control weaknesses, the comments and recommendations in the Memorandum should bring about improved management and efficiencies in the operation of WMATC. The Memorandum includes recommendations on the:

- Use of obsolete checks,
- Controls over disbursements, and
- Accounting for allotments from signatories.

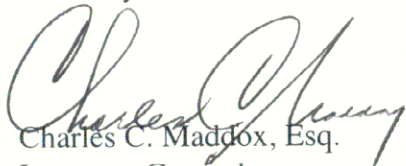
WMATC's response to our draft Memorandum is included at Exhibit A. These comments are incorporated as appropriate in the final Memorandum. We find that the response and the proposed actions are acceptable.

By individual separate letters, this report has been sent to the Mayor, District of Columbia; the Governor and the Auditor of Public Accounts of the Commonwealth of Virginia; the Governor and the Legislative Auditor of the State of Maryland; and the Commissioners of the Washington Metropolitan Area Transit Commission.

William McGilvery, Executive Director  
WMATC  
September 21, 2001  
Page 2 of 3

We appreciate the cooperation and courtesies extended to our staff by WMATC personnel during the audit. Should you have questions regarding this report, please contact me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.  
Inspector General

CM/ws

Enclosures (2)



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MEMORANDUM OF COMMENTS AND RECOMMENDATIONS  
FOR MANAGEMENT IMPROVEMENTS IN ACCOUNTING  
PROCESSES AT THE WASHINGTON METROPOLITAN  
AREA TRANSIT COMMISSION

for the Fiscal Year Ended June 30, 2000

OIG No. 01-1-7KC(2)

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GOVERNMENT OF THE DISTRICT OF COLUMBIA



OFFICE OF THE INSPECTOR GENERAL

717 14TH STREET, N.W., 5TH FL.  
WASHINGTON, D.C. 20005  
(202) 727-2540

September 21, 2001

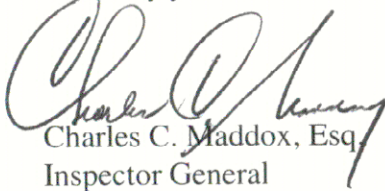
The Commissioners of the Washington  
Metropolitan Area Transit Commission  
1828 L Street, N.W., Suite 703  
Washington, D.C. 20036

The Office of the Inspector General (OIG) completed an audit of the Washington Metropolitan Area Transit Commission (WMATC) for the fiscal year ended June 30, 2000, and issued OIG Audit Report No. 01-1-7KC. As part of the audit engagement we have prepared a "Memorandum of Comments and Recommendations for Management Improvements in Accounting Processes at the Washington Metropolitan Area Transit Commission" (Memorandum) OIG Audit Report No. 01-1-7KC(2), which we believe will improve the accounting processes by the WMATC. This Memorandum does not modify our opinion as expressed in the Auditor's report dated June 29, 2001, on such financial statements.

In accordance with generally accepted government auditing standards, we performed a review of existing internal controls for the purpose of providing a basis for reliance on accounting and administrative records and determining the extent of substantive testing. The review was not intended to be an exhaustive study of internal controls for making detailed recommendations and would not have necessarily disclosed all weaknesses in the system.

The accompanying Memorandum includes comments and recommendations for improvements in the accounting process at WMATC. A draft of the Memorandum was provided to the Executive Officer at WMATC for review and comments. Attached to the Memorandum is a copy of the Executive Officer's response, dated August 30, 2001, in which he sets forth implementation of the recommendations made in the Memorandum.

Sincerely yours,



Charles C. Maddox, Esq.  
Inspector General

CM/ws



## **MEMORANDUM OF COMMENTS AND RECOMMENDATIONS FOR MANAGEMENT IMPROVEMENTS IN ACCOUNTING PROCESSES AT THE WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION**

### **USE OF OBSOLETE CHECKS**

The Washington Metropolitan Area Transit Commission (WMATC) uses obsolete checks written on accounts with now defunct banks - American Security, and NationsBank - to issue payments from its current account with Bank of America. Although Bank of America continues to honor the old checks issued by WMATC, the use of obsolete checks could prevent payees from receiving timely credit to their bank accounts or from being able to use the checks effectively as negotiable instruments. It also requires the bookkeeper to maintain separate check registers to ensure: 1) that all disbursements are recorded timely into the accounting system and 2) that all outstanding checks are recorded when reconciling the bank account.

**Recommendation 1.** We recommend that the WMATC Executive Director destroy obsolete checks and obtain new sequentially numbered checks with the correct bank information for use in paying vendors and employees.

### **DISBURSEMENTS**

WMATC does not immediately distribute checks to vendors once the checks are prepared for payment and signed. For example, of 18 checks issued to vendors in June 2000, totaling approximately \$9,941.66, only one check had cleared the bank by the end of July 2000. WMATC officials informed the OIG that computer checks for vendors are prepared once a month and held until the due date as the result of limited staffing. WMATC had sufficient funds in the checking account to cover the dollar amount for checks issued. Not issuing checks once they are prepared distorts the actual cash and accounts payable balances and also weakens internal controls as the checks could be misplaced or stolen.

WMATC also did not cancel vendor invoices when payments were submitted for review and signature. Good internal controls would require WMATC to cancel the invoice. Cancelling could be accomplished simply by writing or stamping "PAID" on the invoice and listing the date, check number, and initials of the signer. This control procedure is intended to prevent the inadvertent or intentional reuse of an invoice for duplicate payment.

**Recommendation 2.** We recommend that the Executive Director:

- a) Promptly issue checks after they are prepared, reviewed, and signed; and
- b) Cancel invoices once paid so that they cannot be resubmitted for duplicate payment.

## **ACCOUNTING FOR ALLOTMENTS FROM SIGNATORIES**

WMATC's recording of allotments received is not in compliance with generally accepted accounting principals (GAAP) and generally accepted accounting practices among government entities. Our prior management letter, dated May 8, 1998, noted that WMATC established a receivable account for the amount due from the three signatories to fund current operations with an offsetting credit entry to the unrestricted fund balance account. In governmental accounting, fund balance is synonymous with retained earnings, which is an equity account (net income or loss of the entity from its inception) in the commercial sector. GAAP only allows for an entry to be posted directly to retained earnings in rare material cases when prior period adjustments are recorded or certain tax benefits are realized.

The OIG believes that the accounting and reporting of allotments should be consistent with those for grants, entitlements, or revenues, and should be recorded as an operating transaction (current activity) and not as an equity transaction. WMATC, when recognizing revenue, should post a credit entry to allotment-revenue account rather than fund balance-unrestricted account.

**Recommendation 3.** We recommend that the WMATC Executive Director record the receipt of allotments in a manner that is consistent with GAAP by establishing an allotment revenue account to record allotments received from the signatories.

### **WMATC's Response:**

WMATC management concurs with the audit findings and will take action to implement the recommendations. WMATC's response is attached at Exhibit A.



WASHINGTON METROPOLITAN AREA  
TRANSIT COMMISSION



SUITE 703  
1828 L STREET, N.W.  
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August 29, 2001

Charles C. Maddox, Esq.  
Inspector General  
Government of the District of Columbia  
717 - 14<sup>th</sup> Street, N.W., 5<sup>th</sup> Floor  
Washington, DC 20005

Re: OIG No. 01-1-7KC(2)

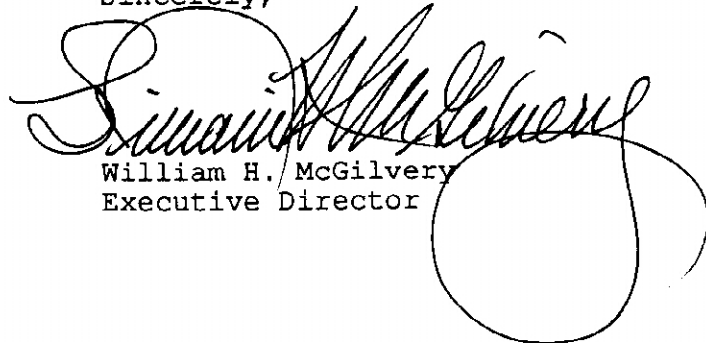
Dear Mr. Maddox:

This responds to your letter of August 17, 2001, enclosing your office's memorandum of recommendations for improvement in the Commission's accounting processes.

I have reviewed your letter and the memorandum, and I have directed that the recommendations be implemented at once.

Thank you and your staff for helping us identify areas of potential increased efficiency.

Sincerely,



William H. McGilvery  
Executive Director

2001 AUG 30 PM 3:00